

The Year 2000 date change presents challenges for the financial services industry and its regulators. If this issue is not addressed, computers may be unable to record and process information accurately.

The Year 2000 challenge was the FDIC's highest safety-and-soundness priority in 1998. The Corporation took aggressive action during the year to address the Year 2000 date change, including issuing guidance to financial institutions, performing outreach activities, conducting comprehensive on-site assessments at banks, training staff and preparing contingency plans. The FDIC also addressed the effects of the Year 2000 date change on its own automated systems.

The FDIC, in partnership with the other agencies of the Federal Financial Institutions Examination Council (FFIEC), issued substantial guidance to the industry in 1998 on how to address certain Year 2000-related issues. The guidance states that banks should ensure the involvement of the board of directors and management in Year 2000 efforts, adopt written project plans, renovate mission-critical systems, complete tests of the renovated systems by specific deadlines, plan for contingencies, appropriately manage Year 2000 risk posed by customers and develop Year 2000 customer awareness programs. Milestone dates by which financial institutions should accomplish certain Year 2000-related responsibilities are prescribed in the guidance.

To maintain open communication with the banking industry about Year 2000 issues, the FDIC and the FFIEC conducted an extensive nationwide banker outreach program in conjunction with industry trade

organizations in 1998. The FDIC took part in more than 130 one-day seminars addressing regulatory expectations in the areas of testing and contingency planning. More than 11,000 bankers attended these sessions. Other Year 2000 outreach activities in 1998 included co-sponsoring a summit meeting on behalf of the President's Council on Year 2000 Conversion Financial Institution Sector Group; and monthly publication of an FDIC Year 2000 newsletter, which discusses important current issues and reminds bankers of regulatory expectations.

Customer Awareness

The FFIEC guidance requiring all FDIC-insured financial institutions to establish Year 2000 customer awareness programs underscores the FFIEC's belief that institutions have a responsibility to inform bank customers about the Year 2000 issue and the steps they are taking to minimize the potential for glitches. To help insured financial institutions comply with the FFIEC's guidance, the FDIC developed several publications in 1998 that bankers can use to educate their customers about the Year 2000 issue.

The first was a consumer brochure, *The Year 2000 Date Change*, which answers basic consumer questions about the Year 2000 issue. The brochure, developed by the FDIC in conjunction with the FFIEC, has a two-pronged message: first, that the FDIC and other federal banking agencies are taking strong action to assure the banking industry is ready for the new millennium; and second, that depositors' funds will continue to be protected by FDIC insurance. The FDIC provided all FDIC-insured institutions with camera-ready versions of the brochure, in both English and Spanish, so they could reproduce copies of the brochure for their customers. The brochure has been well-received by consumers and financial institutions alike, and more than 10 million copies were distributed to consumers in 1998. The brochure is also posted on the FDIC's Web site.



Mattox Photography

▲ The FDIC's Year 2000 project managers meet frequently to discuss the banking industry's progress in achieving Y2K readiness.



▲ The Year 2000 Date Change brochure for banking customers highlights the efforts of financial institutions and the Federal Financial Institutions Examination Council (FFIEC) to address the potential effects of the Year 2000 date change.

To help insured financial institutions get the FDIC's Year 2000 message across to an even larger audience, the FDIC developed a "statement stuffer" that institutions can conveniently include in customer account mailings. The FDIC's Year 2000 statement stuffer, which briefly emphasizes the two main messages in the consumer brochure, was sent to all insured financial institutions in late 1998. The statement stuffer is expected to be even more popular than the brochure.

In another major initiative to educate the public on the Year 2000 issue, the FDIC has devoted substantial coverage to the topic in its quarterly *FDIC Consumer News*. Three of four issues of the newsletter published in 1998 included articles on the Year 2000 challenge. The fall issue was devoted entirely to Year 2000-related topics of interest to consumers, including features on the efforts of federal banking regulators and banking institutions to protect bank customers, a list of steps consumers can take to help protect themselves, and an interview with Chairman Tanoue. *FDIC Consumer News* has a regular distribution to more than 50,000 homes, banks, consumer organizations, and other readers. To assure that this special Year 2000 edition reaches as broad an audience as possible, the FDIC also arranged to make the publication available through insured financial institutions and the federal Consumer Information Center in Pueblo, CO. *FDIC Consumer News* is also posted on the FDIC's Web site.

Along with these highly visible efforts, the FDIC took action to assure that its staff who answer consumer inquiries are trained on the Year 2000 issue. The volume of Year 2000 consumer inquiries

was relatively small in 1998—with only 38 inquiries for the year. However, consumer inquiries are expected to increase in 1999, and the FDIC has taken steps to ensure it is ready to handle consumer questions appropriately. In early 1999, the FDIC established a toll-free Year 2000 Call Center to answer the public's calls about Y2K.

On-Site Assessments

By May 31, 1998, the FDIC's bank examiners, with assistance from state bank regulators, completed the first round of on-site Year 2000 assessments for FDIC-supervised institutions. FDIC examiners also completed on-site assessments of all data service providers and vendors that the FDIC is responsible for examining. In these on-site assessments, examiners determined whether the board and senior management were actively involved in their institution's Year 2000 projects, whether their Year 2000 programs were comprehensive, and whether they understood regulatory requirements. Examiners also assessed whether institutions properly identified the scope of the Year 2000 issue and the resources that would be required to address technical problems.

The results indicated that the vast majority of financial institutions, as well as their service providers and software vendors, recognize the risk of the Year 2000 date change and are acting to address the issue. At year-end 1998, approximately 97 percent of FDIC-supervised institutions were making satisfactory progress toward achieving Year 2000 readiness. During 1999, examiners will continue to follow up on weaknesses detected in the first round of on-site examinations and, by March 31, will complete a second round that began in the latter half of 1998.

Internal Compliance

The FDIC has a rigorous, centralized strategy to address internal Y2K issues that should result in a smooth transition of its automated systems in the Year 2000.

The Corporation is adhering to timeframes established in guidance from the U.S. Office of Management and Budget (OMB) and the U.S. General Accounting Office for five stages of Year 2000 project management: awareness, assessment, renovation, validation, and implementation. The FDIC completed the renovation phase at the end of August 1998 in accordance with the OMB schedule, and at year-end was on schedule to continue meeting the other timeframes in the guidance.

The FDIC's strong management efforts should enable the Corporation to continue business as usual after January 1, 2000.

FDIC Consumer News

Fall 1998

Special Report
on the Year 2000

INSIDE

Questions and Answers on the Year 2000 Problem
Page 3

FDIC Chairman Tanoue: "Insured Deposits Fully Protected"
Page 5

What Regulators Are Doing to Get Banks Ready for the Year 2000
Page 6

A Bank Customer's Y2K "To-Do" List
Page 8

The Year 2000 and Your Insured Deposits
Page 9

A List of Government Resources for Y2K Help and Information
Page 10



Illustration: T.H. Miller, Jr.

The Year 2000, Your Bank and You

The government and the banking industry are working to keep the Y2K computer bug from affecting bank customers. Here's an FDIC guide to what you need to know and do to be ready.

The scenario for the "Year 2000" situation may seem like something created by Hollywood. Computer experts warn that systems worldwide could go haywire when midnight strikes on January 1, 2000. The news touches off a global rescue effort—a race against the clock—to ensure that our most basic services,

from water and electricity to medical care and banking, will continue with little or no interruption.

In the movies, the "good guys" usually have just seconds or minutes to solve the problem. But in the real-world story of the Year 2000 (also known as

continued on next page

▲ **The fall 1998 issue of the FDIC Consumer News was devoted entirely to Year 2000 topics, including government efforts to protect bank customers and steps consumers can take to help protect themselves.**